

## **11.07.00.00 - RENTAL PROCEDURES**

### **11.07.01.00      General**

The following sections specify procedures for renting vacated property that are in addition to those set forth in Subchapter 11.02.00.00, Closure Procedure.

### **11.07.02.00      Marketing Plan**

Each district should maintain a Marketing Plan that should be updated annually in July. The Plan should list by project the number and types of properties estimated to become available for rent/lease in the coming fiscal year. The Plan should also indicate the manner in which the properties will be marketed along with estimated costs.

### **11.07.03.00      Finder's Fees/Rental Incentives**

Finder's fees and rental incentives may be used when necessary to reduce the vacancy rate. A finder's fee is a rent credit given to an existing tenant as compensation for referring a prospective tenant to the state. A rental incentive is a rent credit given to a new tenant as an enticement to rent our property. A rental incentive should be used only as a last resort and may be spread over several months when used in a month-to-month rental agreement.

The RWPS Adjustment Request Screen is used to notify Accounting of any rent credit.

### **11.07.04.00      Advertising**

Whenever the district uses newspaper advertisements, it shall comply with Public Contract Code Section 10115.13 relating to the use of certain advertising business enterprises. The Property Manager shall contact the Department's Business Enterprise Program prior to advertising and request a list of any certified media firms for the area. The findings and subsequent actions shall be documented.

- **Improved Properties** - The Agent should use newspaper advertisements for residences and other improved properties when necessary to attract tenants. Posting of improved properties with advertising signs may be desirable in some cases and is at the district's discretion. Posting is not desirable where, for example, it would invite vandalism.
- **Vacant Land** - Rentable vacant land shall be posted with advertising signs indicating the property is for rent. Exceptions are allowed only when posting would be unreasonable, uneconomical, invite dumping or vandalism, or conflict with local sign ordinances. In some cases, newspaper advertisements may be desirable for vacant land of high value.

### **11.07.05.00      Showing Property**

Under no circumstances are prospective tenants to be given keys that enable them to inspect state property on their own. If several parcels are available and a prospective tenant is interested in seeing a number of them, the Agent should ask the person to view the properties and improvements from the exterior. Thereafter the prospective tenant may set up an appointment with the Agent to inspect those of primary interest.

### **11.07.06.00      Rental Application and Credit Report**

Before making a commitment to rent, the Agent shall have the prospective tenant complete a Rental Application, RW 11-5, and verify the information.

- **Credit Reporting Agency Used** - A satisfactory credit report must be received. The applicant(s) shall pay the actual costs of the credit report(s).
- **Credit Reporting Agency Not Used** - The Property Manager or authorized representative must make a diligent effort to verify the information on the Rental Application before committing to rent to the applicant.

**11.07.07.00**      **Guidelines for Selection of New Tenants**

Property Management is responsible for renting to qualified applicants only. The Agent shall review all applications and select the most qualified applicant based on available data. The decision shall be based on ability to pay rent and ability and willingness to maintain the property and improvements.

One test of ability to pay rent is that the applicant's gross household income should equal or exceed four times the rental rate. The district may make exceptions to this procedure at its discretion, but it must document all exceptions and retain the documentation in the rental file. Examples of exceptions include good employment history and prior record of consistently paying rents.

Federal and state laws prohibit discrimination in housing accommodations against tenants because of race, gender, creed, color, religion, national or ethnic origin, age, marital status, or disability.

**11.07.08.00**      **Use of Cosigners**

Cosigners should not be used to qualify an applicant with insufficient income or credit.

**11.07.09.00**      **Declined Applicants**

If an applicant is denied housing because of failure to meet the state's standards, the denial shall be in writing and the reasons for denial stated.

If Property Management's decision to decline tenancy to an applicant is based wholly or in part on information in a credit report, written notification to the tenant is required (California Civil Code Section 1785.20). The written notice of rejection shall be delivered or mailed to the applicant even though the person may also be notified verbally. The notice shall identify the reporting agency and shall inform the applicant of their rights to obtain information on the report's content. (See Exhibit 11-EX-4 for a sample notice of rejection.)

**11.07.10.00**      **Executing the Rental Agreement**

All adult occupants must sign the rental agreement. Under no circumstances are new tenants to take occupancy prior to signing the rental agreement and

paying all monies due, such as security deposits and prorated rents.

The DDC-R/W or authorized representative may execute all residential and nonresidential rental agreements on the state's behalf.

The Agent will inform the state's tenants about the Department's policy and procedures under Title VI of the 1964 Civil Rights Act and will deliver a Title VI Survey (RW 2-1) at the time the rental agreement is signed. The Agent will advise the tenants that furnishing this information is voluntary and the information will be used for statistical purposes and reviewed for compliance with federal requirements. Compliance with this requirement is noted in the rental file, and the Title VI Survey is sent to P&M.

**11.07.11.00**      **Initial Rent Collection**

When a new tenancy is created, one month's rent or the prorated amount due for the balance of the month shall be collected. Prorations are based on a 30-day month. (See Exhibit 11-EX-5 for proration table.)

The initial rent and the security deposit shall be paid to the Agent prior to the tenant's occupancy in the form of cashier's check or money order.

**11.07.12.00**      **Security Deposits**

A security deposit shall be collected from new tenants, except for state's grantor, before tenancy commences. The security deposit is not a means of establishing a tenant's qualifications; it serves as an incentive for tenants to maintain the landscaping and improvements in a manner consistent with the adjoining neighborhood. The security deposit may also be used to remedy defaults in rent payment.

**11.07.12.01**      **Amount**

Generally, tenants shall make a security deposit as follows:

- **Improved Unfurnished Property** - not to exceed an amount equal to 2 months rent.
- **Improved Furnished Property** - not to exceed an amount equal to 3 months rent.

#### **11.07.12.02      Waivers/Reductions**

In certain instances the district may waive the requirement for collection of a security deposit or reduce the amount. Where the requirement is waived, the account file shall be fully documented. Acceptable conditions for a waiver or reduction are:

- In neighborhoods where improvements are in a state of decline and demand for rental units is relatively low, and where extensive efforts to rent have shown that the improvements are not sufficiently desirable to attract a renter who can make a security deposit.
- From a tenant inherited from state's grantor where a security deposit had not formerly been established and where the tenant is acceptable in all respects.
- From governmental agencies.
- For unimproved properties.

#### **11.07.12.03      Refund**

In all cases, the district shall furnish the tenant, by personal delivery or by first class mail, postage prepaid, a copy of an itemized statement indicating the basis for, and the amount of, any security deposit received and the disposition of the security deposit and shall return any remaining portion of the security deposit to the tenant(s) (see California Civil Code, Section 1950.05). The district must deliver any refund and the itemized statement within 3 weeks of the vacancy date.

In order to meet the 3-week deadline, the Agent must submit the information to the Accounting Service Center within 5 working days from the date of vacancy. It is the responsibility of the Agent to insure the tenant(s) receives the itemized statement within the three weeks, preferably prior to the tenant(s) receiving a refund from the State Controller.

If the property is sold, the district, at its discretion, may return the security deposit to the tenant, less any lawful deductions, or transfer the deposit to the new owner. If transferred to the new owner, the district must notify the tenant in writing either by personal delivery or by certified mail. The tenant must be given an accounting of any deductions made and the new owner's name, address, and telephone number. If notice to the tenant is made

by personal delivery, the tenant shall acknowledge receipt of such notice.

#### **11.07.13.00      Utilities**

Utilities generally include gas, water, sewer, telephone, electricity, and garbage service. Multiply these types of services by the number of utility companies involved and the number of properties a district/region maintains, and it is apparent that initiating, monitoring, and terminating utility services can be a considerable undertaking. The districts/regions, therefore, must adhere to the following guidelines, as well as develop additional procedures that address district/region problems and meet their specific needs.

#### **11.07.13.01      Responsibility for Utility Costs**

Tenants shall be solely responsible for telephone service and, as a general rule, for electricity and gas service as well. On an exception basis, there may be instances when it would be appropriate for the state to pay for electricity and gas, such as in a multiple residential unit where there is only one meter for supplying electrical or gas service for the property. If, however, individual meters are available, tenants should pay for their own utilities. A rent reduction would be appropriate if the utility costs were previously included in the tenant's rental rate. The reduction should be calculated based on the monthly cost of the utilities previously provided by the state's grantor as part of the rent.

In many localities, suppliers of water and sewer service insist that the property owner pay bills for these services. As a result, districts/regions may find it advantageous to have the water and sewer bills sent directly to the state. The state shall then collect the amount required for these services as part of the rent, with the specified amount segregated in the rental agreement and on the tenant's monthly rent.

Rental agreements must be specific about:

- Which utilities are assumed by the state and, therefore, are the state's responsibility.
- Which utilities are the tenant's responsibility and are to be paid directly to the utility company by the tenant.
- Which utilities are the tenant's responsibility but are collected from the tenant by the state and conveyed to the utility company.

**11.07.13.02**      **Notifying Utility Companies at  
Date of Recordation**

Districts/regions should take special care transferring utility charges when an acquired parcel is recorded in the state's name. Problems encountered will vary from one area to another. Specific requirements, therefore, are brief and set forth general guidelines that shall be used to attain a reasonable degree of uniformity among districts/regions.

Prior to acquisition or as soon thereafter as possible, the Agent shall observe the utility requirements of the property and note the types of service in the rental file. The determination about which utilities the state will pay shall be based on information the Agent gathers while inspecting the property. If the state is responsible for payment of utilities, the district/region shall notify the appropriate companies in writing, specifying the date the deed was recorded in the state's name and the date the state will assume responsibility for the utility charges.

**11.07.13.03**      **Payment of Utility Bills by the  
State**

Whenever utility service is initiated in the state's name, or is transferred back into the state's name (e.g., when a tenant vacates rental property), the Agent shall request that the utility company send the initial bill directly to the district/region Property Management office. The Agent shall review the bill for accuracy and shall write the source, charge, EA, special designation, and agency object (x002) codes on the bill or attach a Receiving Record (Form 1226A) with the information. For residential rental property, the Agent shall also check to make sure the state is being charged a residential rate and not a commercial rate. The Agent shall forward the bill to ASC, Accounts Payable, Utility Section, with a change of address request. Once Accounts Payable receives the bill, they will send the change of address to the utility company so future bills will be sent to Accounts Payable.

On a quarterly basis, Accounts Payable will send a Utility Report to the districts/regions for verification.

**11.07.13.04**      **Segregating Utility Charges**

The state is obligated to pay 24% of rental income on certain properties to the counties in which they are located. The district must, therefore, segregate any monies collected for payment of utilities so the adjusted gross rent may be determined to calculate the amount to be dispersed.

**11.07.13.05**      **Utility Deposits by Tenant**

If a tenant is to assume responsibility for utility service, the Agent shall advise the tenant that:

- The utility company may require a deposit.
- If any problems occur as a result of the deposit, the problems are solely between the tenant and the utility company as the state will not become involved.

**11.07.14.00**      **Possessory Interest Tax**

The tenant's interest is subject to a possessory interest tax that the city or county may impose. S&H Code Section 104, however, requires the Department to pay the tax directly to the city or county on the tenant's behalf.

Tax bills inadvertently received by the tenant should be forwarded to the Accounting Service Center.

**11.07.15.00**      **Residential Property  
Occupancy and Vacancy  
Inspections**

When a new tenant moves into a residential property, or when a newly acquired property has an inherited tenant, the tenant shall accompany the Agent on an inspection of the unit. Page 1 of RW 11-8, Residential Property Occupancy and Vacancy Inspections, shall be completed. All blanks must be filled in, noting "OK" or any deficiencies. The form is to be signed by the tenant and the Agent and a copy shall be given to the tenant.

Page 2 of RW 11-8 shall be completed when the tenant moves out. If possible, the tenant should accompany the Agent during the inspection and sign the move-out form, which is the basis for deposit refunds or withholdings.

#### **11.07.16.00      Uses of Rental Agreement**

RW 11-1 is to be used for month-to-month tenancies only for the following types of rentals:

- Single-family residential property.
- Separate units in a multiple commercial or residential building where there is one master water meter for the entire building.
- Multiple residential units being rented to a master tenant. Although in most cases this type of tenancy shall be under the standard lease form, the month-to-month rental agreement form may be used where tenancy will be of short duration due to early clearance of buildings for construction. The master tenant will pay all utility bills including water.
- Occasionally instead of a lease, generally where commercial or industrial month-to-month tenancies are involved.
- Vacant land only when necessary to execute a lease or rental agreement. This applies to vacant land, other than agricultural, or land with improvements retained by the grantor. The standard Rental Agreement, RW 11-1, may be modified to comply with actual conditions or when special situations arise upon approval of the DDC-R/W or authorized representative.

#### **11.07.17.00      Courtesy Notice of Termination**

The Department's policy is to provide all tenants who are not eligible for relocation benefits an informal courtesy notice of the state's intention to terminate their tenancies at least 90 days before the required termination date. This requirement does not alter the state's authority to terminate on 30-days notice as provided in the standard rental agreement when such notice is absolutely necessary.

#### **11.07.18.00      Rental Refunds**

The district shall return any unearned rents to tenants who give proper notice and vacate the property in good condition. The unearned rents shall be prorated on a 30-day month basis in accordance with Exhibit 11-EX-5.

#### **11.07.18.01      Rental Agreement**

- **Tenant Has Paid Rent in Advance and Vacates the Premises on Their Own Volition Before the Rental Term Expires** - The district may make a refund for the unexpired portion of the term provided there is no delinquent rent and the tenant has cooperated in the matter of notification and is leaving the premises in good condition.
- **Tenant Has Paid Rent in Advance and Vacates the Premises at the State's Request Before the Rental Term Expires** - A refund will be made for the unexpired portion of the term.
- **Tenant Has Not Paid Rent in Advance and Vacates the Premises Before the Rental Term Expires** - The tenant will be billed only for the period up to the date that vacation of the premises was discovered or enforced. If a bill has already been issued for the full term, the billing will be reduced to the actual amount due under this rule using the RWPS Adjustment Request Screen. Every effort must be made to collect the amount due.

The district may waive the requirement that a tenant provide a termination notice when vacating property under a rental agreement.

#### **11.07.18.02      Leases**

Refunds will be made of rent collected for the period subsequent to the termination date of the lease. The termination date is determined pursuant to the notification of termination by the state or lessee as required by the lease.

#### **11.07.19.00      Cancellation - Failure to Pay Rent**

RW 11-11, 3-Day Notice to Pay Rent or Quit, shall be used to cancel a rental agreement or lease where the tenant is delinquent in rental payments. Notice shall be served upon the tenant as specified in Section 11.08.04.00.

If the tenant is eligible for relocation benefits, Property Management must notify the RAP Unit of the delinquency.

During the 3-day period after service of the 3-day notice, the state must accept full payment of rent due when offered by the tenant. Acceptance of full rent due nullifies the 3-day notice. After the end of the 3-day period, the state may refuse payment and continue with the eviction process. If payment is accepted after the 3-day period, however, the notice is nullified. Entering the date of service of 3-day notice in the 3-Day Notice field of the RWPS Delinquent Tenancy Screen will electronically notify Accounting not to accept rent payments after the 3-day period.

**11.07.20.00**      **Cancellation - Notice to Vacate  
For Reasons Other Than  
Failure to Pay Rent**

Where the tenant is not delinquent in their rent and the state wishes to terminate a rental agreement or lease that contains a 30-day termination clause, RW 11-10, 30-Day Notice of Termination of Tenancy and Notice to Quit, shall be used.

The notice shall be served in the manner described in Section 11.08.04.00. Refund policy is described above. The notice may be modified to provide for various lease termination requirements such as 60 or 90 days.

**11.07.21.00**      **Cancellation - Breach of  
Covenant**

When it is necessary to cancel a lease or rental agreement where the tenant has breached a

covenant of the agreement with the state, RW 11-12, 3-Day Notice to Correct Breach of Covenant or Quit (Curable Breach), or RW 11-13, 3-Day Notice to Quit for Breach of Covenant (Incurable Breach), may be used.

Notice shall be served upon the tenant as specified in Section 11.08.04.00.

If the tenant is eligible for relocation benefits, Property Management must notify the RAP Unit of the breach.

Curable breaches include anything that can be cured or corrected by payment of money (e.g., late fees, deposits, insurance, and bonds) and may also include, for example, unapproved pets, excessive garbage or debris, and unauthorized use.

Incurable breaches cannot be cured once committed and include, for example, nuisance, committing waste, and subleasing or assignment without prior state approval.

**11.07.22.00**      **Departmental Use of State-  
Owned Property**

Properties managed by Property Management may be used temporarily by other district functions if such use is within local government requirements. Although no rent will be charged, the user will be responsible for all maintenance costs, remodeling costs, and any costs necessary to return the property to its original condition.